

Company Registration No. 2339902

WH Smith Promotions Limited

Annual Report and Financial Statements

31 August 2017

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WH Smith Promotions Limited

Annual report and financial statements 31 August 2017

Contents	Page
Officers and professional advisers	1
Directors' report	2
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Strategic report	4
Independent auditors' report	7
Statement of profit or loss and other comprehensive income	9
Balance sheet	10
Statement of changes in equity	11
Notes to the financial statements	12

WH Smith Promotions Limited

Annual report and financial statements 31 August 2017

Officers and professional advisers

Directors

S Clarke

I Houghton

R J Moorhead

Company Secretary

I Houghton

Registered Office

W H Smith Plc
Greenbridge Road
Swindon
Wiltshire
SN3 3RX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors
1 Embankment Place,
London,
WC2N 6RH
United Kingdom

WH Smith Promotions Limited

Directors' report

The directors present their annual report together with the audited financial statements for the year ended 31 August 2017.

Directors

The names of the present directors of the Company and who served throughout the year and up to the date of signing are shown on page 1.

Directors' indemnities

The Company has qualifying third party indemnity provisions for the benefit of its directors which remained in force throughout the year and at the date of this report.

Results and dividends

The audited financial statements for the year ended 31 August 2017 are set out on pages 9 to 18. The financial statements have been prepared under Financial Reporting Standard 101 ("FRS 101").

As shown in the Statement of profit or loss and other comprehensive income on page 9, the Company's profit for the financial year ended 31 August 2017 was £2,261,330 (2016: £1,862,998).

The directors do not recommend the payment of a dividend (2016: £nil).

Future developments

Details on the future developments of the Company are given in the Strategic report on page 6.

Going concern and financial risk management

Disclosures in respect of going concern and financial risk management are given in the Strategic report on pages 5 and 6.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WH Smith Promotions Limited

Directors' report (continued)

Equal Opportunities

The directors believe in creating throughout the Company a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form. The Company gives full and fair consideration to applications for employment when these are received from disabled people and employs disabled people whenever suitable vacancies arise. Should an employee become disabled when working for the Company, we will endeavour to adapt the work environment and provide retraining if necessary so that they may continue their employment and maximise their potential.

Employee involvement

Employee engagement is supported through clear communication of the Group's performance and objectives. This information is cascaded through team briefings, large employee events, intranet sites and regular e-newsletters. This approach and the Group's open management style encourages employees to contribute to business development. The Company, when appropriate, consults directly with employees and/or employee representatives so that their views can be taken into account when decisions are made which are likely to affect them.

Elective resolutions

At an Extraordinary General Meeting of the Company held on 27 May 1994, Elective Resolutions were passed dispensing with:

- the laying of financial statements and reports before the Company in general meeting;
- the holding of Annual General Meetings; and
- the obligation to appoint an auditor annually.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

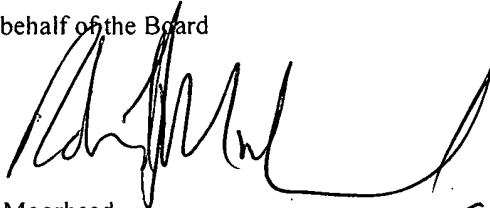
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The independent auditors, PricewaterhouseCoopers LLP, will continue in office as auditors to the Company.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

This report was approved by the Board of Directors on 18 January 2018.

On behalf of the Board



R J Moorhead
Director

WH Smith Promotions Limited

Strategic report

The Strategic report is prepared in accordance with s414(c) of the Companies Act 2006.

Business review and principal activities

The principal activity of the Company is currently the purchase, sale and promotion of WH Smith gift vouchers and electronic gift cards. There have not been any significant changes in the Company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

The Company produced a satisfactory trading performance resulting in a profit for the financial year to 31 August 2017 of £2,261,330 (2016: £1,862,998). The Company is expected to trade profitably in the foreseeable future and to further develop the potential inherent in the corporate market in the areas of gift vouchers, magazine subscriptions and corporate product management and the development of electronic gift cards and days out/evenings out paper gift vouchers.

As shown in the Company's Statement of profit or loss and other comprehensive income on page 9, the Company's sales for the year to 31 August 2017 have decreased by 11% over the prior year, and profit for the financial year has increased by 21% to £2,261,330 (2016: £1,862,998).

The balance sheet on page 10 of the financial statements shows that the Company's net assets have increased by £2,261,330, reflecting the profit in the year. Details of the amounts owed by and owed to other group undertakings are shown in Notes 9 and 10 respectively on pages 17 and 18.

Key performance indicators

The key measures the Company uses to monitor performance are:

	2017	2016
Sales decline	11%	14%
Gross profit margin	37.5%	26.9%

Gross profit and sales are as presented in the financial statements.

The Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group, of which this Company is a part, is discussed in the WH Smith PLC Annual Report and Accounts 2017, which does not form part of this Report.

Principal risks and uncertainties

During the year the Company traded with WH Smith High Street Limited, on a short-term contract and is therefore exposed to the risk of non-renewal of this contract. WH Smith High Street Limited is a fellow group subsidiary and the directors do not believe that the contract will be terminated in the foreseeable future.

The WH Smith PLC group manages its operations, including WH Smith Promotions Limited on a divisional basis and has identified the following factors as major potential risks to the successful performance of the business of the Group. Many of these factors are applicable to WH Smith Promotions Limited.

Some, such as IT failures, are specific risks that require specific, identified actions to mitigate their effect. Others such as the impact of competition, are areas addressed through strategic planning and operational management processes. Principal risks and uncertainties identified include:

- Economic, political, competitive and market risks
- Brand and reputation
- Key suppliers and supply chain management
- Store portfolio
- Business interruption
- Reliance on key personnel
- International expansion
- Treasury, financial and credit risk management
- Cyber risk and data security

WH Smith Promotions Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Group risks are discussed in further detail within the Principal risks and uncertainties sections of the Strategic report in the Group's Annual Report and Accounts 2017, which does not form part of this report, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

All principal business functions compile risk registers and summary risk maps to identify key risks, assess them in terms of their likelihood and potential impact, and determine appropriate control strategies to mitigate the impact of these risks taking account of risk appetite. The ongoing monitoring of this framework is overseen by the respective Business Risk Committees and the Group Audit Committee. During the year, the Group Board reviewed the effectiveness of the Group's risk management and internal controls systems. This review included the discussion and review of the risk registers and the internal controls across all business functions, as part of an annual exercise facilitated by the Internal Audit team. During the year, the Group Board also received presentations from management on specific risk areas such as cyber risk, international expansion, and the ongoing risk monitoring processes and appropriate mitigating controls.

Financial Risk Management

The Company's operations expose it to a variety of financial risks that include the effects of interest rate risk. The Company is subject to the WH Smith Group policies to ensure proper monitoring and control of financial risk. The policies are set by the Group and are implemented by the Company's finance department.

The Group's treasury function seeks to reduce exposures to interest rate and other financial risks, and to ensure liquidity is available to meet the foreseeable needs of the Group and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Group's Audit Committee and are subject to regular Group Internal Audit review. Further information on the Group's financial risk management policies and procedures are given in the WH Smith PLC Annual Report and Accounts 2017, which does not form part of this report.

Liquidity risk

The Company manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts.

The Group has a policy of pooling cash flows in order to optimise the return on surplus cash and also to utilise cash within the Group to reduce the costs of external short-term funding.

Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the Company in relation to lending and other financial activities. The Company's principal financial assets are trade and other receivables and bank balances and cash.

The Company has limited credit risk as its trade and other receivables primarily include intercompany balances with other Group companies. The amounts included in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company does not hold collateral over any of these financial assets.

Interest rate risk

The Company is exposed to cash flow interest rate risk on floating rate intercompany loans and overdrafts.

WH Smith Promotions Limited

Strategic report (continued)

Health, safety and environment

In the field of health and safety the Board is committed to maintaining high standards for its employees, customers, contractors and anyone affected by its business activities. Within the Group, a Health and Safety Committee represents the interests of employees. The Group, which benchmarks its performance against other companies, is represented on several national bodies concerned with health and safety.

The Group Risk Management Department operates within a broad framework covering issues such as health and safety, environmental impacts, insurance, disability issues and other risk areas. The department provides advice, guidance and support to managers within the Group ensuring that high standards are maintained.

The Group continues to engage with suppliers to promote and improve labour standards and better environmental management. As a member of the Ethical Trading Initiative (ETI), we continue to work with other members to share best practice and develop solutions to challenges we all face.

Further information on the Health, Safety and Environment is contained within the Strategic report of the Group's Annual Report and Accounts 2017.

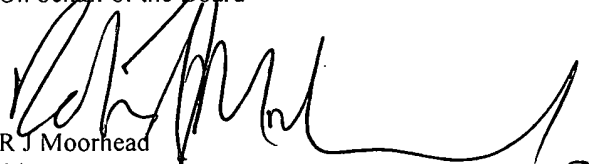
Going concern and future developments

The Company's business activities, together with factors that are likely to affect its future developments, performance and position are detailed within this Strategic report. The financial position of the Company and its liquidity position are described in the financial statements and notes. The WH Smith PLC Annual Report and Accounts 2017 includes further information regarding the Group's financial position, cash flows and borrowing facilities, as well as its policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Strategic report of the WH Smith PLC Annual Report and Accounts 2017 also highlights the main risks and uncertainties facing the Group, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure and borrowing facilities. After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue its current operations, including contractual and commercial commitments for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

This report was approved by the Board on 18 January 2018.

On behalf of the Board



R J Moorhead
Director

Independent auditors' report to the members of WH Smith Promotions Limited

Report on the audit of the financial statements

Opinion

In our opinion, WH Smith Promotions Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 August 2017; the Statement of profit or loss and other comprehensive income for the year then ended; the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of WH Smith Promotions Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 August 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

18 January 2018

WH Smith Promotions Limited

Statement of profit or loss and other comprehensive income For the year ended 31 August 2017

	Note	2017 £	2016 £
Revenue	3	8,627,393	9,727,935
Cost of sales		(5,390,694)	(7,108,783)
Gross profit		3,236,699	2,619,152
Administrative expenses		(424,799)	(290,380)
Profit on ordinary activities before taxation	4	2,811,900	2,328,772
Tax on profit on ordinary activities	8	(550,570)	(465,774)
Profit for the financial year		2,261,330	1,862,998
Other comprehensive result for the year		-	-
Total comprehensive income for the year		2,261,330	1,862,998

The results are derived from continuing operations.

WH Smith Promotions Limited

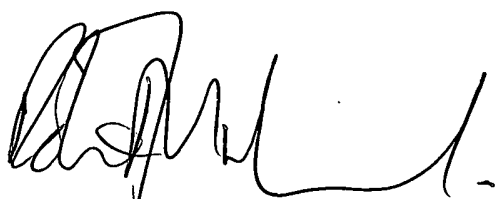
Balance sheet As at 31 August 2017

	Note	2017 £	2016 £
Current assets			
Inventory		19,449,352	19,519,755
Trade and other receivables: amounts falling due within one year	9	17,628,022	16,945,993
Cash and cash equivalents		34,180	38,925
		<u>37,111,554</u>	<u>36,504,673</u>
Current liabilities			
Trade and other payables: amounts falling due within one year	10	(13,834,421)	(15,488,870)
Net current assets		<u>23,277,133</u>	<u>21,015,803</u>
Net assets		<u><u>23,277,133</u></u>	<u><u>21,015,803</u></u>
Equity			
Ordinary shares	11	2	2
Retained earnings		<u>23,277,131</u>	<u>21,015,801</u>
Total shareholders' funds		<u><u>23,277,133</u></u>	<u><u>21,015,803</u></u>

The notes on pages 12 to 18 are an integral part of these financial statements.

These financial statements of WH Smith Promotions Limited, registered number 2339902, on pages 9 to 18, were approved by the Board of Directors and authorised for issue on 18 January 2018.

Signed on behalf of the Board of Directors



R J Moorhead
Director

WH Smith Promotions Limited

Statement of changes in equity For the year ended 31 August 2017

	Called up equity share capital £	Retained earnings £	Total shareholders' funds £
Balance as at 1 September 2015	2	19,152,803	19,152,805
Profit for the financial year	-	1,862,998	1,862,998
Other comprehensive result for the year	-	-	-
Total comprehensive income for the year	-	1,862,998	1,862,998
Balance as at 31 August 2016	2	21,015,801	21,015,803
Balance as at 1 September 2016	2	21,015,801	21,015,803
Profit for the financial year	-	2,261,330	2,261,330
Other comprehensive result for the year	-	-	-
Total comprehensive income for the year	-	2,261,330	2,261,330
Balance as at 31 August 2017	2	23,277,131	23,277,133

WH Smith Promotions Limited

Notes to the financial statements Year ended 31 August 2017

1. Accounting policies

General information

WH Smith Promotions Limited is a private Company limited by shares and is incorporated and domiciled in the UK.

Accounting convention

The financial statements of WH Smith Promotions Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

The financial statements are prepared under the historical cost basis and are in compliance with the Companies Act 2006 as applicable to companies applying FRS 101 and applicable United Kingdom law and accounting standards.

All accounting policies have been applied consistently in the current year and the prior year, except as noted below and under "new standards adopted in the year."

Basis of preparation

The financial statements are for the year ended 31 August 2017. The prior year financial statements were for the year ended 31 August 2016.

The financial statements have been prepared on the going concern basis as explained in the Strategic report on page 6.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- a) IFRS 7, 'Financial Instruments: Disclosures';
- b) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - a. Paragraph 79(a)(iv) of IAS 1;
 - b. Paragraph 73(e) of IAS 16 Property, plant and equipment;
- c) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- d) IAS 7, 'Statement of cash flows';
- e) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- f) The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Where relevant, equivalent disclosures have been given in the group financial statements of WH Smith PLC. The group financial statements of WH Smith PLC are available to the public and can be obtained as set out in Note 13.

WH Smith Promotions Limited

Notes to the financial statements (continued) **Year ended 31 August 2017**

1. Accounting policies (continued)

Basis of preparation (continued)

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

New standards adopted in the year

The Company has adopted the following standards and interpretations which became mandatory during the current financial year. These changes have had no material impact on the Company's financial statements:

- Amendment to IAS 1 Disclosure Initiative
- Annual improvements 2012–2014

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services to customers.

Revenue is recognised when the significant risks and rewards of the goods or services provided have transferred to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

Revenue excludes discounts, estimated returns, VAT and other sales-related taxes.

Deferred income

Sales of electronic gift cards are recognised in deferred income until the gift card is redeemed by the customer.

Inventory

Inventory comprises gift vouchers purchased from a fellow group Company for resale, which are stated at the lower of cost and net realisable value.

Cost is calculated to include, where applicable, duties, handling, transport and directly attributable costs including a deduction for applicable supplier income) in bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling prices less further costs expected to be incurred in selling and distribution.

Provisions are made for obsolescence, markdown and shrinkage.

Pension costs

Costs in respect of the Company's defined contribution pension schemes are charged to the statement of profit or loss and other comprehensive income on an accruals basis as contributions become payable.

Dividends payable and receivable

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Dividends receivable from subsidiaries are recorded in the statement of profit or loss and other comprehensive income in the period in which they are received.

WH Smith Promotions Limited

Notes to the financial statements (continued) Year ended 31 August 2017

1. Accounting policies (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

b) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

WH Smith Promotions Limited

Notes to the financial statements (continued) Year ended 31 August 2017

1. Accounting policies (continued)

Financial instruments

a) Trade receivables

Trade receivables are measured at initial recognition, do not carry any interest and are stated at their fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss and other comprehensive income when there is evidence that the asset is impaired.

b) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

c) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

d) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

e) Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

2. Critical accounting judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Significant items subject to such assumption and estimate include the useful economic life of assets; the measurement and recognition of provisions; the recognition of deferred tax assets; and the liabilities for potential corporation tax. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting policies in determining the financial condition and results of the Company are those requiring the greatest degree of subjective or complex judgement. These relate to inventory valuation and taxation.

a) Inventory valuation

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

b) Taxation Provisions

Provisions have been estimated for taxation. These provisions represent the best estimate of the liability at the time of the balance sheet date, the actual liability being dependent on future events such as economic environment and marketplace demand. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

WH Smith Promotions Limited

Notes to the financial statements (continued) Year ended 31 August 2017

3. Revenue

All of the Company's revenue and profit before taxation is from sale of goods and arises in the United Kingdom.

4. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2017	2016
	£	£
Cost of inventory recognised as an expense	5,390,694	7,108,783
Auditors' fees:		
– Audit of the Company's annual financial statements	3,000	3,000
– Non-audit fees including taxation and other services	-	-

There are no non-audit fees (2016: £nil). Statutory disclosures in respect of non-audit fees are given in the consolidated financial statements of WH Smith PLC.

5. Directors

The remuneration of S Clarke and R J Moorhead is paid by a fellow Group company and no allocation of their services, as directors of WH Smith Promotions Limited and other Group companies, is made. S Clarke and R J Moorhead are directors of the parent company and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. Accordingly, no disclosure in respect of the remuneration of S Clarke and R J Moorhead is made. The remuneration of S Clarke and R J Moorhead is included in the directors' emoluments disclosed in the consolidated financial statements of WH Smith PLC.

I Houghton received no remuneration in respect of his services as a director of the Company during the year (2016: £nil).

6. Employees and staff costs

	2017	2016
	£	£
Staff costs:		
Wages and salaries	68,896	80,058
Social security costs	7,741	8,110
Other pension costs	8,409	8,440
	85,046	96,608
	No.	No.
Monthly average no. of employees		
Retailing	2	2

7. Pensions

The Group operates a defined contribution scheme, WH Smith Pensionbuilder.

The Company's pension cost charge to its defined contribution scheme, WH Smith Pensionbuilder, for the year amounted to £8,409 (2016: £8,440).

WH Smith Promotions Limited

Notes to the financial statements (continued) Year ended 31 August 2017

8. Tax on profit on ordinary activities

Tax expense included in profit or loss:

	2017 £	2016 £
Current tax		
United Kingdom corporation tax 19.58% (2016: 20.00%)	550,570	465,754
Adjustment in respect of prior years	-	20
Tax on profit on ordinary activities	550,570	465,774

Reconciliation of the tax charge

The tax assessed for the year is the same (2016: higher than) the standard rate of corporation tax in the UK (2017: 19.58%, 2016: 20.00%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before taxation	2,811,900	2,328,772
Tax on profit at UK rate of corporation tax – 19.58% (2016: 20.00%)	550,570	465,754
Adjustment in respect of prior years	-	20
Total tax charge	550,570	465,774

The UK corporation tax rate has been 19 per cent with effect from 1 April 2017. The UK corporation tax rate will reduce to 17 per cent from 1st April 2020. The effects of these changes are included in these financial statements.

9. Trade and other receivables

	2017 £	2016 £
Amounts falling due within one year:		
Trade receivables	6,931	70,019
Other receivables	73,184	68,016
Amounts owed by group undertakings	17,538,520	16,797,780
VAT	9,387	10,178
	17,628,022	16,945,993

All amounts owed by group undertakings are non-interest bearing and repayable on demand.

WH Smith Promotions Limited

Notes to the financial statements (continued) Year ended 31 August 2017

10. Trade and other payables

	2017 £	2016 £
Amounts falling due within one year:		
Deferred income	5,065,491	6,371,736
Other payables	24,851	30,138
Amounts owed to other group undertakings	8,469,972	8,854,119
Corporation tax	274,107	232,877
	<u>13,834,421</u>	<u>15,488,870</u>

All amounts owed by group undertakings are unsecured, non-interest bearing and repayable on demand.

11. Share capital

	2017		2016	
	Number of shares	Nominal value £	Number of shares	Nominal value £
Allotted and fully paid				
Ordinary shares of £1 each	2	2	2	2
	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

12. Related party transactions

The Company has taken advantage of the exemptions granted by paragraph 8(k) of FRS 101, not to disclose transactions with WH Smith PLC Group companies and interests of the Group who are related parties.

13. Ultimate parent company

The ultimate parent and controlling company is WH Smith PLC, a company incorporated in Great Britain and registered in England and Wales. WH Smith PLC heads the largest and smallest group of companies of which the Company is a member for which consolidated financial statements are prepared.

The immediate parent company is WH Smith Retail Holdings Limited, which is incorporated in Great Britain.

Copies of both sets of financial statements are available from:

The Company Secretary
WH Smith PLC
Greenbridge Road
Swindon
Wiltshire
SN3 3RX